

BRANCH WEEKLY CHECKLIST

(Trends.....14.22.....)

WEEK OF

23 AUG

#64

SECTION II	(writer)	(div)	(ed)	<del>CONFIDENTIAL</del> (copy in/for/initial)	ORE PICKUPS	SPECIALS
A) GENERAL:						NONE
				25X6A		
C) KOREA (1)	NAVY RAIDS	10:30 Tues				
D) CHINA (2)	MILITARY				(A) → yes	
	(3) ECON.					
	(4) NEWS NOTES					
E) INDOCHINA						
F) THAILAND				1400		
G) MALAYA						
H) BURMA (5)	E MAUNG					
I) INDONESIA (6)	ADD HAGUE				(B) - ?	
J) PHILIPPINES (7)	CONGRESS CALLED				(A) - ?	
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L) POA						
SECTION III						

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FAR EAST/PACIFIC BRANCH  
OFFICE OF REPORTS AND ESTIMATES  
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

WEEKLY INTELLIGENCE HIGHLIGHTS

NO. 64

DATE: 23 August 1949

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OFFICE OF REPORTS AND ESTIMATES, CIA  
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 64  
17 AUGUST to 23 AUGUST 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Korean Republic Coast Guard vessels have been raiding northern waters in recent weeks and have captured a number of puppet fishing boats (p. 2).

The steady Communist military advance in China has continued unchecked in the northwest and southeast, although delays have occurred in central China (p. 2).

Burmese Foreign Minister E Maung has returned from his visit to the UK and the US and the results of his journey, while unspectacular, may well mean the cementing of stronger bonds with the West (p. 4).

The Dutch-Indonesian Round Table Conference is scheduled to begin at The Hague this week. Successful negotiations are contingent upon effective maintenance of the "cease-fire" agreement in Indonesia (p. 5).

Philippine President Quirino's junket to the US apparently has so bolstered his political prestige that he has called a special session of Congress, the first since his hasty adjournment of that rebellious body last May (p. 5).

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The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

KOREA

Republican navy raids north--Several aggressive forays into northern Korean waters were made by southern Korean personnel during the period 5-19 August. The first two expeditions used fishing vessels manned by Coast Guard crews in civilian clothes, together with members of rightist youth groups. A later raid, however, was reported to have been carried out by 6 regular vessels of the Republic's Coast Guard. At least 4 northern Korean commercial fishing vessels and one armed craft were captured in the raids and brought into the southern port of Inchon. "B"

The ostensible purpose of the forays was to recapture a small Coast Guard cabin cruiser whose crew had defected to the north recently. It is more probable that the major Republican consideration is to use the captured vessels to build up a propaganda picture of "defections" to the Republic in an attempt to counter the loss of prestige occasioned by Republican defections to the north.

CHINA

Military scene--The Communist military advance in China last week continued successfully in the northwest, slowed somewhat on the south-central front and maintained its recent pace along the southeast coast. In remote Kansu, where the two rabidly anti-Communist MAS had been expected to put up stiff resistance, the vanguard of Communist PENG Teh-huai's forces reached the outskirts of Lanchow, the provincial capital, apparently without encountering any real opposition. MA Pu-fang, commander of the largest force in the area, is reported to have ordered a withdrawal of his troops to positions nearer the capital city of Sining in his home province of Tsinghai. MA Hung-kuei, the other Moslem guardian of the Northwest, is reported to have advised CHIANG Kai-shek that his forces are reduced to 12 rounds of ammunition per man. CHIANG's reply - that MA should fight on until down to six rounds per man and then revert to guerrilla tactics - indicates that the Nationalist leader has written-off the MAS. Lanchow, left to the defense of nondescript local garrison forces, can be expected to fall into Communist hands shortly. "A"

Local Communist setbacks in central China are confirmed by "reliable independent sources". In the vicinity of Leiyang, on the Canton-Hengyang railway, Communist LIN Piao's forces were thrown back. An entire Communist

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army is reported "lost" in fighting around Yungfeng, to the northwest of Hengyang. Although these local reverses will have a temporary effect at best, they are evidence that the advance against Nationalist PAI Chung-hsi is not progressing as rapidly as might be expected. While LIN Piao's forces continue to contain PAI and force him back into Kwangsi, it seems probable that the main Communist thrust on Canton will be made by LIU Po-cheng's troops, who have taken Tayu near the Kwangtung border and threaten to move on against the key rail city of Kukong.

Along the Fukien coast, meanwhile, the Communists have followed the capture of Foochow, the provincial capital and a major port opposite Taiwan, with a move down the coastal highway towards the port of Amoy. Some of Foochow's Nationalist defense forces are retreating ahead of the Communists towards Amoy while others were evacuated, either to Taiwan itself, or to the coastal Pingtan islands. In view of the lack of effective resistance in the southeast, it is probable that the Communists will gain control of all the Chinese mainland area opposite CHIANG's Taiwan stronghold in the near future.

#### NEWS NOTES

Shanghai inflation halted: New rice, entering the Shanghai market, is causing a temporary downward trend in prices. Rice last week stood at PBN 50,000 per picul (US\$22), 18% lower than in early August. Since wage costs in the city are based in large part on rice prices, the decline has been reflected in a drop of the "parity deposit unit" by 22% below the 1 August level. A firm Communist fiscal policy, in contrast to past irresolute Nationalist efforts, may share credit with the rice harvest for driving prices down. The Communists have shown determination to avoid unlimited resort to printing press currency and their efforts to reduce government expenses and increase revenues have forced the discharge of government workers and cut into the profits of private business. Despite drastic measures, the present leveling of prices probably constitutes no more than a temporary break in the inflationary trend which results from the expenses of continuing civil war.

Communists begin population dispersal: A program of wide-scale "repatriation to the villages" has been instituted in the lower Yangtze valley. Surplus populations in Nanking and Shanghai are to be dispersed into the countryside of Anhwei and Kiangsu - 40,000 already have left Nanking and

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300,000 have left Shanghai. According to an East China Bureau directive, the action, which has been taken as a counter-measure to the Nationalist blockade, does not propose any important removal of industrial facilities from Shanghai. On the contrary, the directive states that population dispersion is designed to improve the cities' lot, "by reducing the burden on (them) and increasing rural productivity," rather than to diminish the importance of urban areas.

#### BURMA

Foreign Minister's visit to West--The results of Burmese Foreign Minister "B" E Maung's trip to the UK and US thus far have been largely inconclusive. In London he was mainly interested in obtaining financial assistance and was told that the UK was willing to resume discussions for the extension of a short-term Commonwealth loan. He also exhibited interest in the exchange of intelligence information with the British, especially regarding the Sino-Burma and Indochina-Burma border areas, about which he has indicated considerable concern. While in the US, E Maung maintained a friendly but cautious and noncommittal attitude. Conversations were of a general nature and Maung neither made requests for aid of any kind nor committed himself in any way regarding future Burmese policy. While he indicated interest both in exchanging intelligence and in the possibility of negotiating a treaty of friendship, commerce and navigation, he desired to postpone detailed discussions until his return to the US as head of the Burmese delegation to the UN General Assembly. Maung did, however, let it be known that the Burmese Government was prepared to ease further its present restrictive policies regarding private foreign investments.

Although there have been no firm developments, Maung's trip cannot be considered unsuccessful. Besides returning with modest tangible results in the form of a prospective Commonwealth loan, he can report progress in attaining closer relations with the West while at the same time avoiding any suspicions of selling out to Anglo-American "capitalist-imperialists," a consideration that may have accounted for his reticence while in the US. Moreover, if he can convince the Burmese Socialists that neither the UK nor the US harbors malicious designs on Burma and that both are in fact sympathetic to Burmese aspirations, further steps to align Burma with the West may be taken when he returns.

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#### INDONESIA

Hague meet hinges on cease-fire--The extremely complex problem of implementing the Dutch-Republican cease-fire agreement in Indonesia remains the greatest threat to the success of the Round Table Conference which opens in The Hague this week. High Republican officials flatly deny Dutch charges that "infiltration", i.e. Republican troop movement, is part of a concerted plan to expand into Dutch-held territory in disregard of the military truce. However, the Republic has the difficult and nearly impossible task of attempting to control all movements of scattered Republican regular and guerrilla troops and Republicans will be blamed for disturbances fomented by dissident Communists and fanatic Moslem armed bands as well. Moreover, Dutch military commanders in Indonesia, who have long opposed any conciliatory policy toward the Republic and who very often disagree with or disregard Netherlands Government directives, are pressuring Crown Representative Lovink in Batavia for permission to take punitive action against alleged Republican truce violators. Meanwhile, the activities of UNCFI, in strengthening its military observer teams in the field and in transmitting objective reports on the situation to The Hague, are the strongest deterrents to a renewal of widespread hostilities which would inevitably wreck the conference.

"B"

#### PHILIPPINES

Quirino calls special session of Congress--The decision by President Quirino to convene a special session of Congress on 31 August appears to be directly inspired by his improved position in the Philippine presidential race as a result of his US visit. <sup>1/</sup> Local press comment on the junket has been highly favorable and Jose P. Laurel, Quirino's chief rival in the November elections, is reported to be much discouraged. During the past week, one Senator from Laurel's Nacionalista Party and one formerly supporting the Avelino clique have openly declared their switch of allegiance to Quirino. The former Avelino man announced that he had decided to back "America's friend." Quirino's call for a special session indicates that he expects other defections in the Senate, since Congress was adjourned hastily last May when Quirino's forces lost Senate control.

"A"

Note: <sup>1/</sup> See Section III for an Embassy Manila analysis of the three presidential candidates.

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